

**BEFORE THE
WORLD TRADE ORGANIZATION
APPELLATE BODY**

United States - Section 211 Omnibus Appropriations Act of 1998

(AB-2001-7)

**OTHER APPELLANT SUBMISSION OF
THE UNITED STATES**

October 19, 2001

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I. INTRODUCTION AND EXECUTIVE SUMMARY

1. On October 4, 2001 the European Communities (“the EC”) appealed the findings of the Panel report in *United States – Section 211 Omnibus Appropriations Act of 1988*¹ (hereinafter “Panel Report”). Pursuant to Rule 22(1) of the Working Procedures for Appellate Review, the United States will respond as appellee to the EC’s arguments on October 29, 2001. In this submission, pursuant to Rule 23(1), the United States seeks review of a separate issue of law covered in the Panel Report and legal interpretations developed by the Panel.

2. The Panel erred in finding that section 211(a)(2) breaches the requirements for fair and equitable procedures detailed in Article 42 of the Agreement on Trade-Related Aspects of Intellectual Property Rights (“TRIPs”). This finding is irreconcilable with the Panel’s otherwise correct findings in this dispute. The Panel correctly found that the TRIPs Agreement does not establish ownership criteria, leaving those criteria to Members’ national laws, subject to TRIPs disciplines.² Specifically, nothing in the TRIPs Agreement forces the United States to recognize an entity that has confiscated assets abroad as the owner of the associated U.S. trademark. The Panel also correctly found that section 211 provides for such ownership criteria.³ Finally, the Panel correctly found that nothing in section 211 prevents a person claiming to own a trademark from initiating civil judicial procedures and cites to nothing that would prevent that person from demonstrating that he or she is eligible to own a trademark, either under section 211 or under other provisions of U.S. law.⁴

3. In the light of these correct findings, the Panel, in effect, found that section 211 breached the TRIPs Agreement by failing to make civil judicial procedures for enforcement available to persons that have failed to demonstrate that they have an enforceable right in a trademark. This

¹ Panel Report on *United States – Section 211 Omnibus Appropriations Act of 1988*, WT/DS176/R, August 6, 2001 (“Panel Report”).

² Panel Report, para. 8.56.

³ Panel Report, para. 8.60.

⁴ Panel Report, para. 8.100.

finding is in error. As even the Panel noted, Article 42 of the TRIPs Agreement does not require judicial authorities to provide enforcement procedures once a finding is made that the claimant does not have a right to enforce.

4. Article 42 provides in relevant part that “Members shall make available to right holders civil judicial procedures concerning the enforcement of any intellectual property right covered by this Agreement.”⁵ The Panel found that, inconsistently with this Article, “section 211(a)(2) limits, under certain circumstances, right holders’ effective access to and, hence, the availability of civil judicial procedures”.⁶ However, the Panel erred when it overlooked the fact that under section 211, the “certain circumstances” under which a court will not recognize, enforce, or otherwise validate the assertion of ownership rights are no more than the very “circumstances” in which the claimant is not the legitimate owner (or right holder) under U.S. law. In other words, the Panel erroneously concluded that, by specifying circumstances under which a person is not a trademark owner, section 211(a)(2) prevents an owner from enforcing his or her rights.

5. Further, the Panel erroneously concluded that section 211(a)(2) prevents persons who claim ownership of a trademark on the basis of registration from having the ability to substantiate their claims in a trademark infringement action. The Panel found nothing in section 211(a)(2) that prevents parties, including trademark registrants, from initiating a judicial proceeding, presenting all relevant evidence in support of their claims, and, if they are trademark registrants, enjoying the presumption of validity which registration confers. Article 42 does not require Members to do more than this. Indeed, section 211(a)(2) fits the Panel’s own description of what a provision should do to be consistent with the TRIPs Agreement.

II. THE PANEL ERRED IN FINDING THAT SECTION 211(a)(2) LIMITS THE AVAILABILITY OF CIVIL JUDICIAL PROCEDURES TO RIGHT HOLDERS IN BREACH OF ARTICLE 42.

6. Article 42 of the TRIPs Agreement requires Members to make civil judicial procedures

⁵ Footnote omitted.

⁶ Panel Report, para. 8.102.

available to “right holders” to enforce any “intellectual property right” covered by the TRIPs Agreement. The obligations of Article 42, therefore, apply to any holders of trademark rights under the TRIPs Agreement. Article 42 creates no obligations with respect to a person who is not a holder of rights covered by the TRIPs Agreement. The Panel, noting that section 211(a)(2) precludes U.S. courts from recognizing, enforcing, or otherwise validating any assertion of rights “in certain circumstances”, concludes that, under those circumstances, the Panel “fail[s] to see how a right holder would be able effectively to assert its rights”.⁷ The fault in the Panel’s logic, described in further detail in section A below, is that the “circumstances” to which the Panel refers are the circumstances in which the person claiming to be a right holder is, in fact, not a right holder. This fault in logic leads to the untenable conclusion that the United States, by not recognizing, enforcing or otherwise validating the assertion of rights by persons who are not right holders, denies effective civil judicial enforcement procedures to those who are right holders. This conclusion is plainly in error.

7. The Panel makes another logical misstep when – apparently referencing the requirement in the fourth sentence of Article 42 that parties to the judicial procedures be entitled to substantiate their claims and present all relevant evidence – it concludes that a right holder is effectively prevented from having a chance to substantiate its claim.⁸ As section B below details, there is nothing in section 211(a)(2) that interferes with the ability of any right holder to substantiate its claims, present all relevant evidence in support of its claims, and, if it is a trademark registrant, to enjoy the presumption of validity which registration confers. Article 42 does not require more than this.

A. The Panel Erred in Finding That Civil Judicial Procedures Are Not Available Under Section 211(a)(2).

8. Under the Panel’s Article 42 analysis, a Member fails to make civil judicial enforcement procedures available to right holders and breaches Article 42 when it declines to recognize,

⁷ Panel Report, para. 8.100.

⁸ Panel Report, para. 8.100.

enforce, or otherwise validate the rights of persons who are not right holders. This analysis is plainly erroneous.

9. The Panel agreed that the TRIPs Agreement does not prohibit Members from establishing their own requirements for trademark ownership, and from denying trademark rights to those not meeting those criteria.⁹ The Panel also found that section 211(a)(1) appropriately implemented this right by defining a set of “confiscated” trademarks that certain applicants could not own and therefore could not register, absent consent from the prior owners.¹⁰ In other words, the Panel recognized that nothing in TRIPs requires the United States to recognize confiscating entities as owners of U.S. trademarks used in connection with the confiscated assets, and it acknowledged that section 211(a)(1) appropriately reflected such ownership criteria.

10. However, when analyzing section 211(a)(2), the Panel appears to have turned away from its own logic. The Panel noted that, under section 211(a)(2), U.S. courts will not recognize, enforce, or otherwise validate any rights of trademark ownership claimed “under certain circumstances”, implying that the United States will ignore existing rights under those circumstances. But the “circumstances” referred to by the Panel under section 211(a)(2) are no more than those identified in section 211(a)(1): the court will not enforce, recognize or otherwise validate the assertion of rights by a designated national “of such [i.e., those described in section 211(a)(1)] confiscated mark, trade name, or commercial name.” These are not arbitrary “circumstances” under which existing rights held by the claimant are ignored and enforcement denied; these are circumstances in which the party asserting rights is not the proper owner of those rights under U.S. law, so that there are no rights to enforce under Article 42. In simple terms, a U.S. court will not recognize, enforce or otherwise validate any “rights” of ownership if it finds that the person is asserting those “rights” on the basis of a theft.

11. As a result of this misstep in logic, the Panel said, in effect, that the entity claiming

⁹ Panel Report, para. 8.56.

¹⁰ Panel Report, para. 8.60.

trademark ownership on the basis of a registration is denied civil judicial procedures to enforce its ownership rights if a court decides that it does not own the trademark (*e.g.*, because the mark was confiscated). The Panel stated:

the right holder is not entitled to effective judicial procedures as the court is *ab initio* not permitted to recognize its assertion of rights if the conditions of Section 211(a)(2) are met. In other words, the right holder is effectively prevented from having a chance to substantiate its claim, a chance to which a right holder is clearly entitled under Article 42, because effective civil judicial procedures mean procedures with the possibility of an outcome which is not pre-empted *a priori* by legislation.¹¹

12. This reasoning is analogous to saying that a person suing for damages to a painting that person stole is denied due process because the outcome is pre-empted *a priori* by legislation that only allows damages for rightful owners. Yes, an entity may not be able to confiscate a business in Cuba and then successfully assert ownership rights in the associated U.S. trademarks. This is not, however, because effective judicial procedures are unavailable to that entity. It is because through such procedures it is determined that the entity has no right in that trademark.

13. The Panel had no basis to conclude, therefore, that civil judicial procedures are unavailable under section 211(a)(2), either because the outcome is pre-empted *a priori* by legislation, or because the court is *ab initio* not permitted to recognize any ownership rights under certain circumstances. Indeed, the Panel's logic leads to the untenable conclusion that the United States, by not recognizing, enforcing or otherwise validating the assertion of rights by persons who are not right holders, denies effective civil judicial enforcement procedures to those who are right holders.

B. The Panel Erred in Finding That Section 211 Limits a Trademark Registrant's Ability to Show That It Is a Right Holder Entitled to Article 42 Rights.

14. In addition to erroneously attributing legal significance to the limitations in section 211(a)(2), inasmuch as they only apply to a person determined not to be a right holder, the Panel

¹¹ Panel Report, para. 8.100.

also erroneously concluded that section 211 deprived a trademark registrant of effective procedures either to assert rights or to substantiate claims.

15. Yet, the Panel acknowledged that nothing in section 211 would prevent a person claiming to own a trademark from initiating civil judicial procedures.¹² Further, the Panel found nothing that would prevent such a person from demonstrating that he or she is eligible to own the trademark under section 211 — e.g., that the business associated with that trademark was not confiscated. To make an analogy to property law, section 211(a)(2) means that the courts will not provide property rights to the person who is holding a painting taken from someone else's home. But, the person holding the painting has every right to assert ownership and to demonstrate that, in fact, the painting was not stolen, but came into that person's possession via a legitimate chain of title.

16. The Panel starts by noting that the trademark registrant, “who enjoys the presumption of being the owner of a trademark under US law . . . must have access to civil judicial procedures that are effective in terms of bringing about the enforcement of its rights until the moment that there is a determination by the court that it is, in fact, not the owner of the trademark that it has registered”¹³ The Panel then leaps to the conclusion that, because section 211(a)(2) “provides that ‘[n]o U.S. court shall recognize, enforce or otherwise validate any assertion of rights’ in certain circumstances,” a right holder is not able to effectively assert its rights “under these circumstances.”¹⁴

17. It is not clear whether the “rights” that the Panel refers to are the rights of “ownership” under the TRIPs Agreement, or the rights to a presumption of ownership under U.S. law. Either way, however, the Panel's finding is in error. If the rights referred to are the rights of ownership, section 211(a)(2) provides that courts will not recognize any assertion of trademark ownership

¹² Panel Report, para. 8.100.

¹³ Panel Report, para. 8.99.

¹⁴ Panel Report, para. 8.100.

rights by entities who seized the associated business abroad without any compensation to the prior owners of the business. Therefore, as discussed in Section A above, although the entity claiming ownership “under these circumstances” is not able successfully to assert rights in the trademark under section 211, it cannot be said that the entity is prevented from successfully asserting its rights in the trademark. The point is that “under these circumstances” — i.e., those identified in section 211(a)(2), having to do with claimants who base their ownership on an uncompensated seizure of business assets — the claimant is not the owner of the trademark and has no rights to assert.

18. Nor can the Panel be saying that a person asserting ownership in a trademark is deprived of an opportunity to present any evidence proving that the circumstances identified by section 211(a)(2) do not apply to that person. In order for a court to conclude that a claimant is not the owner of a trademark under section 211, it must make numerous findings — e.g., that the trademark at issue was used in connection with a certain business or assets; that the business or assets were confiscated; that no adequate and effective compensation was paid to the original owners; that the person claiming ownership is a designated national or a successor in interest; and that the original owners do not consent to the use of that trademark by the claimant. The Panel did not find – and could not find – that a trademark claimant is not given a full opportunity in a civil judicial proceeding to present all evidence and arguments relevant to these questions under section 211. Indeed, because section 211 sets out legal criteria to be applied by a court, it is clear that the court should take into account the available evidence and arguments with respect to these legal issues.

19. Although the Panel does not explain how section 211 impinges on the ability of a trademark owner to assert its rights of ownership, the Panel cites in a footnote, as an apparent illustration, the *Havana Club* district court decision, which states that “section 211 prevents HCI [the plaintiff] from asserting its claims for trade name infringement.”¹⁵ This quotation does not

¹⁵ Panel Report, at para. 8.100 n.133, citing *Havana Club Holdings, S.A. v. Galleon S.A.*, 62 F.Supp.2d 1085 (S.D.N.Y. 1999) (Exhibit EC-8).

clarify the Panel's finding, however, because it does nothing more than state the conclusion that a person not owning a trade name cannot successfully assert rights in that trade name. The details of that particular court action were not before the Panel – indeed, the EC has not challenged the application of section 211 at all – but, based on the judicial opinion cited by the Panel, the court reached its decision based on evidence heard in trial that the claimant had confiscated the underlying asset without compensation, and was not entitled to the trade name.¹⁶ Indeed, the language quoted by the Panel follows directly after the court's finding that the owners whose business had been confiscated had not consented to the use of the trade name of that business by the claimant.¹⁷ Under these circumstances, it is entirely appropriate that a claim of trade name infringement could not be asserted by that entity.

20. It might appear, based on this footnote citation, that when the Panel says that, under section 211, “the right holder is effectively prevented from having a chance to substantiate its claim, a chance to which the right holder is clearly entitled under Article 42”¹⁸ it means the chance to substantiate its claim of infringement, not its claim of being a right holder, such as an owner. If this is the Panel's meaning, then its finding is also incorrect. Courts can, and usually do, consider any issues of ownership before considering whether there is infringement. Nothing in the TRIPs Agreement requires Members to determine whether there is infringement if the person claiming infringement does not have rights in the trademark at issue.

21. In sum, there is simply no justification for finding that section 211 precludes the legitimate owner of a trademark from effectively showing that it is the legitimate owner and asserting its rights in civil judicial procedures concerning enforcement of those rights.

¹⁶ *Havana Club Holdings*, 62 F.Supp.2d at 1091 (Exhibit EC-8)

¹⁷ *Havana Club Holdings*, 62 F.Supp.2d at 1094. This is also evident in the decision on appeal, 203 F.3d 116 (2d Cir. 2000), in which the appellate court considered arguments of the claimant as to whether sufficient compensation had been paid for the confiscated assets. 203 F.3d at 130 (Exhibit EC-16).

¹⁸ Panel Report, para. 8.100.

22. The Panel’s reasoning fares no better if the “rights” to which it refers are the “rights” to a presumption of trademark ownership under U.S. law. First, section 211 does not interfere with the presumptions set out in U.S. law, and the Panel made no findings to the contrary. In the United States, with minor exceptions,¹⁹ trademark ownership is based upon *use* of the trademark in commerce, not upon registration; consequently, the trademark registrant is not necessarily the owner. This system is perfectly compatible with the TRIPs Agreement, as the Panel correctly found.²⁰ However, the trademark registrant does benefit from a rebuttable legal presumption that it is the owner of the trademark. This means that, for instance, in a legal proceeding brought by a trademark registrant to enforce rights of ownership, the defendant in that proceeding, if it contests ownership of the trademark, must present evidence to overcome the presumption that the registrant is the owner. This presumption can be defeated, for instance, by evidence that the defendant had continuously used the trademark prior to the registration.²¹

23. If, in such a proceeding to enforce trademark rights, the defendant were to claim that the trademark registrant is not the legitimate owner of the trademark because the business associated with that trademark had been seized without compensation and the original owners of the business had not consented to the trademark ownership, the defendant would have the burden of proving these facts. There is nothing in section 211 to suggest — and the Panel made no finding that suggests — that a trademark registrant whose ownership is challenged under section 211 does not retain the same presumptions of ownership that it has when ownership is challenged under other provisions of law.

24. To the contrary, section 211 merely articulates one of a number of defenses that a defendant in a trademark action can use to overcome the presumption of ownership in favor of

¹⁹ Under Section 44 of the Trademark Act, 15 U.S.C. §1126, applicants for federal trademark registration may obtain initial registration without demonstrating use in commerce where the U.S. application is based on a valid foreign registration. 15 U.S.C. §1126(e). See Panel Report, para 2.6.

²⁰ Panel Report, at para. 8.64 n. 116.

²¹ Panel Report, at paras 8.64, n. 116, 8.99; 15 U.S.C. 1115 (Exhibit US 33).

the trademark registrant bringing the action. As the Panel noted,²² in the United States, the registration of a trademark confers a *prima facie* presumption of the registrant's ownership of the registered trademark. This is a presumption that can be overcome by proof in a U.S. court that the registrant is not the owner. Section 211(a)(2) has the effect of articulating one of the defenses that a defendant can use to defeat a trademark registrant's presumption of ownership.

25. Considered in this light, if the Panel is right that allowing this defense violates Article 42, then allowing *any* defense contesting the ownership claim of a trademark registrant would equally be a violation. If that were the case, then the Panel would effectively be reading Article 42 to require the United States to change its law to provide that trademark registration automatically confers ownership, rather than merely creating a presumption. As the Panel itself correctly noted, the TRIPs Agreement contains no such requirement, and, in fact, specifically provides that nothing prevents Members from making trademark ownership available on the basis of use -- which is the basis of the U.S. system.²³

26. Not only does section 211 not limit the availability of civil judicial enforcement procedures, section 211 does exactly what the Panel says it should do to be TRIPs-compliant. The Panel gave two indications in its report of what would be required to make a provision like section 211(a)(2) consistent with Article 42 of the TRIPs Agreement. First, in paragraph 8.99, the Panel stated that the "presumptive owner" of the trademark under U.S. law — i.e., the trademark registrant — "must have access to civil judicial procedures that are effective in terms of bringing about the enforcement of its rights until the moment that there is a determination by the court that it is, in fact, not the owner of the trademark that it has registered or that there is some other disqualifying ground which is compatible with international obligations."

27. Second, in paragraph 8.101, after concluding that a right holder is effectively prevented by section 211 from "having a chance to substantiate his claim", the Panel states:

²² Panel Report, para. 8.99.

²³ Panel Report, para. 8.64 n. 116.

We note that it would be another matter were a court to decide, after making available effective judicial procedures to the holder of a trademark registration, that the registrant is not the true owner of the trademark in question. In such a situation, there may no longer be rights to be enforced under Part III of the Agreement, including its Article 42.

28. Section 211 does precisely what the Panel says would be consistent with Article 42 of the TRIPs Agreement. First, a trademark registrant has access to civil judicial proceedings to enforce any ownership rights it may have. The Panel concedes that section 211 contains no bar to initiating civil judicial proceedings.²⁴ Further it is only if a defendant is able to present evidence that rebuts the registrant's *prima facie* case of trademark ownership — for instance, because the trademark was used by the defendant in commerce before the registration or because the trademark was associated with a confiscated business and the registrant was therefore not entitled to own the associated trademark under section 211 — that the trademark registrant is precluded from enforcing the trademark. That is, the registrant has access to civil judicial procedures to enforce ownership rights until the moment that a court decides that the trademark registrant is not the true owner of the trademark. This is precisely what the Panel required of a TRIPs-compliant provision.

29. Second, in a court proceeding in which the trademark registrant's ownership is challenged under section 211(a)(2), the trademark registrant has a full opportunity to present any evidence going to the issue of its ownership, including evidence bearing on whether any of the elements of section 211(a)(2) are satisfied. In addition, the registrant can simply prove the fact of the registration, and will prevail unless the defendant defeats the presumption of validity by sustaining its burden of proof of all the elements of section 211(a)(2). These are effective civil judicial procedures. If, as a result of these effective judicial procedures, the court is satisfied that the defendant has met its burden of proving that the trademark registrant is not the proper owner of the trademark — and the trademark registrant has not successfully rebutted that proof — there are, in the words of the Panel, no “rights to be enforced under Part III of the Agreement,

²⁴ Panel Report, para. 8.100.

including its Article 42.”²⁵

30. In short, section 211 does exactly what the Panel requires of a WTO-compliant provision. It makes effective civil judicial enforcement procedures available to the holder of a trademark registration (indeed, to all trademark claimants), until the time that the court decides that the trademark registrant is not the owner of the trademark and there are no TRIPs Agreement rights to enforce.

31. Consequently, the Panel’s finding that section 211(a)(2) limits the availability of civil judicial procedures to right holders, and thereby violates Article 42 of the TRIPs Agreement, is erroneous and should be reversed.

32. One final general note is appropriate. As discussed above, the Panel’s finding of inconsistency with Article 42 was based on a conclusion that a right holder could not effectively assert its rights “in certain circumstances.” This legal finding is erroneous because the Panel ignored what those “circumstances” were, and, indeed, ignored its own conclusions that those circumstances had to do with whether the person asserting rights was, in fact, a right holder. However, to the extent that the Appellate Body reads the Panel Report as containing implicit findings that section 211(a)(2) requires courts not to enforce trademarks on behalf of legitimate right holders, or prevents such right holders from submitting evidence and arguments that they are legitimate right holders entitled to enforcement procedures, there is no evidence before the panel on which to base such a finding. Any such findings, therefore, would not be based on an “objective assessment” of the facts as required by DSU Article 11.²⁶

III. CONCLUSION

²⁵ Panel Report, para. 8.100.

²⁶ *United States – Definitive Safeguard Measures on Imports of Wheat Gluten From the European Communities*, WT/DS166/AB/R, adopted January 19, 2001, paras. 160 - 161.

33. Based on the foregoing, the United States respectfully requests that the Appellate Body reverse the Panel's finding that section 211(a)(2) is inconsistent with Article 42 of the TRIPs Agreement.